CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

UNITED DRUG, INC.

ANNUAL REPORT

December 31, 1945

OFFICERS

Joseph A. Galvin	*Chairman of the Board*
Justin W. Dart	*President*
Attilla C. Bond	*Vice-President*
Gordon S. Culver	*Vice-President*
William F. Davis, Jr.	*Vice-President*
Edward J. Griffing	*Vice-President*
William G. Johnston	*Vice-President*
F. Thatcher Lane	*Vice-President*
Eric Nicol	*Vice-President*
Irving W. Smead	*Vice-President and Treasurer*
Harold E. Price	*Secretary*

DIRECTORS

Charles Francis Adams	Boston
Earl E. Anderson	Montclair, N. J.
William R. Basset	Greenwich, Conn.
Justin W. Dart	Los Angeles
William F. Davis, Jr.	Los Angeles
George M. Gales	New York
Joseph A. Galvin	Los Angeles
Edward J. Griffing	Boston
George C. Haigh	E. Stroudsburg, Penn.
F. Thatcher Lane	New Haven, Conn.
James L. Richards	Boston
Fred S. Rogers	Middletown, N. Y.

☆

Transfer Agents

Guaranty Trust Company of New York, New York
State Street Trust Company, Boston

Registrars

The Chase National Bank of the City of New York, New York
The National Shawmut Bank of Boston, Boston

April 13, 1946

To the Stockholders of United Drug, Inc.:

SALES

Consolidated sales of your company and its subsidiaries for 1945 were $158,182,700, compared with the previous high of $147,793,341 in 1944. The increase of $10,389,359 was at the rate of 7%. Sales in 1943 were $138,913,407, in 1942 $121,997,977 and in 1941 $102,460,960.

EARNINGS

For the year ended December 31, 1945, consolidated net income of United Drug, Inc. and its subsidiaries amounted to $1,970,971 or $1.41 per share after providing for depreciation, bond interest, Federal and Canadian income and excess profits taxes, office and plant moving and rearrangement expenses, loss on sale of Boston office and factory real estate, portion of premium paid on debentures retired, dividends on the preferred stock of United-Rexall Drug Company, now retired, and the restoration of a portion of amounts previously provided for postwar rehabilitation and contingencies. This compares with $2,191,530 or $1.56 per share for 1944.

During 1945 there were substantial charges against profits for inventory losses in connection with unsalable wartime and obsolete merchandise.

CASH AND WORKING CAPITAL

Current assets as of December 31, 1945 totaled $53,342,231, including cash, marketable securities and United States Treasury Notes in the amount of $16,615,886.

Current liabilities, including reserves of $5,866,153 for United States and Canadian income and excess profits taxes and $1,100,000 for current instalments on serial bank loan were $19,236,800, leaving net working capital of $34,105,431, an increase of $434,723 during the year.

SURPLUS

Earned surplus as shown on the consolidated balance sheet of December 31, 1945, amounted to $12,566,490, compared with $11,317,678 a year earlier.

Among the charges to surplus during 1945 were the premiums paid on debentures retired and related unamortized expenses which amounted to $336,059 after income tax adjustments, and a premium of $4 per share on retirement of preferred stock of United-Rexall Drug Company which totaled $400,000.

INVENTORIES

At the year-end, inventories were valued at $30,027,973, which compared with $28,308,686 at the end of 1944.

NEW LOCATION OF HEADQUARTERS

During the year, a program, starting in 1943, of consolidating all of our drug manufacturing at St. Louis was completed, and the space previously occupied in the Boston Plant was made vacant. As a consequence, the Boston Plant was sold in its entirety, the loss from the sale resulting in a substantial reduction in Federal income tax liabilities. With the sale of the property it became necessary to seek a new location for our offices and Los Angeles was selected as the city where the most progressive merchandising plans are being developed. We were fortunate in being able to acquire a very desirable location on the corner of Beverly and La Cienega Boulevards and by the end of this year it is hoped that a new building will be completed to house the world headquarters of our administrative departments. A portion of the building will be occupied by the finest drug store ever installed which will serve as a model for future stores in our own retail companies and for our Rexall Dealers.

REFINANCING

In 1943 a successful refinancing of the funded debt of United-Rexall Drug Company was arranged. The progress of your company made during the past two years permitted the carrying out of a further refinancing program in June of 1945. The then outstanding $18,666,000 of 3¼% debentures and $10,000,000 of $4.75 preferred stock of United-Rexall Drug Company were redeemed and replaced by a $7,000,000 2¼% serial bank loan maturing June 1st, 1952 and $21,000,000 3% sinking fund debentures due June 1st, 1965, issued to a group of insurance companies. The cost of this operation, before tax saving, including the premium to retire the old bonds and preferred stock, was $1,486,059.

Your company arranged a further 2¼% serial bank loan of $700,000 and issued in December to an insurance company $1,300,000 3% sinking fund debentures due 1965 to provide a portion of the funds for the new headquarters building, giving us office space at a much lower cost than would have been possible had we leased it.

SPLIT-UP AND INCREASE OF AUTHORIZED SHARES

The present authorized capital stock of the corporation consists of 1,400,560 shares of the par value of $5 each, all of which are issued and outstanding. The stockholders are being requested by the management and the Board of Directors

to authorize a decrease in the par value and an increase in the number of shares which the corporation shall have authority to issue from 1,400,560 shares of $5 par value to 5,000,000 of $2.50 par value, and to authorize a change of each presently issued share of $5 par value into two shares of $2.50 par value. The management believes that this split-up will make possible a wider distribution of the corporation's capital stock.

The management has no present plans with respect to the issuance or sale of any of the additional new shares, but it is believed advisable to make additional shares available for expansion of the corporation's business should favorable opportunities present themselves. Shares may be issued from time to time on terms and conditions as the Board of Directors may determine for cash or in exchange for the stock or the property and business of other companies.

ELIMINATION OF PREEMPTIVE RIGHTS

The stockholders are also being asked, in order to facilitate the issuance of the additional shares referred to above, to amend the Certificate of Incorporation of the corporation by providing that stockholders of the corporation shall not have any preemptive or preferential right of subscription to any additional shares which may be issued.

SQUEEZE BETWEEN PRICE CEILINGS AND INCREASED WAGES

Current volume in your company's retail stores and its principal manufacturing subsidiary continues at a substantial level above 1945. (A few of your company's plants which were heavily engaged in war production are currently behind last year's volume.) If it were not for these increases your company would be in a much less favorable condition. We have been permitted practically no price increases, while costs of both materials and labor have risen sharply.

DIVIDEND POLICY

Our program for reconversion and improvement of the company is still far from completion. If stockholders authorize the issue of additional common shares as recommended, further means for the expansion of your company's activities with attendant opportunities for increased profits will have been provided.

Your Board of Directors will not endeavor to determine a dividend policy until a sufficient portion of the operating results for 1946 are available to provide a reasonable basis for an estimate of the year's profits.

CHANGE OF CORPORATE NAME

A further proposal is being submitted to the stockholders to change the name of the corporation from United Drug, Inc. to United-Rexall Drug, Inc. The purpose of the foregoing amendment is to identify with the corporation the word "Rexall" which is the principal trade-mark of the corporation's operating subsidiary, United-Rexall Drug Company.

This change is a logical consequence of action taken by the management during the past year changing the name of United Drug Company to United-Rexall Drug Company as part of a program of concentrating all merchandising efforts of the corporation around this principal trade-mark. The management believes that the name of the parent company, United Drug, Inc., should be changed to United-Rexall Drug, Inc. in order to facilitate this program and to avoid the confusion that will inevitably result if the corporate names United Drug, Inc. and United-Rexall Drug Company remain coexistent.

POSTWAR ACTIVITIES

Plans which were made during the war for the training of personnel, for the rehabilitation of our stores and for the improvement of the stores of our Rexall Dealers, are now in full operation. We have prepared for distribution to our dealers throughout the country a complete program, called "Opportunity Unlimited," on the up-grading of Rexall. The best merchandising, store construction and advertising talent in the country was recruited to supply the factual information. A staff of specially trained store lay-out men is now in the field to assist our dealers in carrying out the program. The result of this effort should be better Rexall Stores throughout the country, which in turn means improved merchandising outlets for our products.

RADIO ADVERTISING

For a year we have been on the air every Friday as sponsors of the Jimmy Durante-Garry Moore program. The response from Rexall Dealers has been very gratifying.

CONCLUSION

The efficiency and loyalty of our employees during the past years have helped immensely in accomplishing your company's objectives. We deeply appreciate their whole-hearted cooperation.

Respectfully submitted,

J. W. Dart, *President.*

to authorize a decrease in the par value and an increase in the number of shares which the corporation shall have authority to issue from 1,400,560 shares of $5 par value to 5,000,000 of $2.50 par value, and to authorize a change of each presently issued share of $5 par value into two shares of $2.50 par value. The management believes that this split-up will make possible a wider distribution of the corporation's capital stock.

The management has no present plans with respect to the issuance or sale of any of the additional new shares, but it is believed advisable to make additional shares available for expansion of the corporation's business should favorable opportunities present themselves. Shares may be issued from time to time on terms and conditions as the Board of Directors may determine for cash or in exchange for the stock or the property and business of other companies.

ELIMINATION OF PREEMPTIVE RIGHTS

The stockholders are also being asked, in order to facilitate the issuance of the additional shares referred to above, to amend the Certificate of Incorporation of the corporation by providing that stockholders of the corporation shall not have any preemptive or preferential right of subscription to any additional shares which may be issued.

SQUEEZE BETWEEN PRICE CEILINGS AND INCREASED WAGES

Current volume in your company's retail stores and its principal manufacturing subsidiary continues at a substantial level above 1945. (A few of your company's plants which were heavily engaged in war production are currently behind last year's volume.) If it were not for these increases your company would be in a much less favorable condition. We have been permitted practically no price increases, while costs of both materials and labor have risen sharply.

DIVIDEND POLICY

Our program for reconversion and improvement of the company is still far from completion. If stockholders authorize the issue of additional common shares as recommended, further means for the expansion of your company's activities with attendant opportunities for increased profits will have been provided.

Your Board of Directors will not endeavor to determine a dividend policy until a sufficient portion of the operating results for 1946 are available to provide a reasonable basis for an estimate of the year's profits.

CHANGE OF CORPORATE NAME

A further proposal is being submitted to the stockholders to change the name of the corporation from United Drug, Inc. to United-Rexall Drug, Inc. The purpose of the foregoing amendment is to identify with the corporation the word "Rexall" which is the principal trade-mark of the corporation's operating subsidiary, United-Rexall Drug Company.

This change is a logical consequence of action taken by the management during the past year changing the name of United Drug Company to United-Rexall Drug Company as part of a program of concentrating all merchandising efforts of the corporation around this principal trade-mark. The management believes that the name of the parent company, United Drug, Inc., should be changed to United-Rexall Drug, Inc. in order to facilitate this program and to avoid the confusion that will inevitably result if the corporate names United Drug, Inc. and United-Rexall Drug Company remain coexistent.

POSTWAR ACTIVITIES

Plans which were made during the war for the training of personnel, for the rehabilitation of our stores and for the improvement of the stores of our Rexall Dealers, are now in full operation. We have prepared for distribution to our dealers throughout the country a complete program, called "Opportunity Unlimited," on the up-grading of Rexall. The best merchandising, store construction and advertising talent in the country was recruited to supply the factual information. A staff of specially trained store lay-out men is now in the field to assist our dealers in carrying out the program. The result of this effort should be better Rexall Stores throughout the country, which in turn means improved merchandising outlets for our products.

RADIO ADVERTISING

For a year we have been on the air every Friday as sponsors of the Jimmy Durante-Garry Moore program. The response from Rexall Dealers has been very gratifying.

CONCLUSION

The efficiency and loyalty of our employees during the past years have helped immensely in accomplishing your company's objectives. We deeply appreciate their whole-hearted cooperation.

Respectfully submitted,

J. W. Dart, *President.*

April 13, 1946

To the Stockholders of United Drug, Inc.:

SALES

Consolidated sales of your company and its subsidiaries for 1945 were $158,182,700, compared with the previous high of $147,793,341 in 1944. The increase of $10,389,359 was at the rate of 7%. Sales in 1943 were $138,913,407, in 1942 $121,997,977 and in 1941 $102,460,960.

EARNINGS

For the year ended December 31, 1945, consolidated net income of United Drug, Inc. and its subsidiaries amounted to $1,970,971 or $1.41 per share after providing for depreciation, bond interest, Federal and Canadian income and excess profits taxes, office and plant moving and rearrangement expenses, loss on sale of Boston office and factory real estate, portion of premium paid on debentures retired, dividends on the preferred stock of United-Rexall Drug Company, now retired, and the restoration of a portion of amounts previously provided for postwar rehabilitation and contingencies. This compares with $2,191,530 or $1.56 per share for 1944.

During 1945 there were substantial charges against profits for inventory losses in connection with unsalable wartime and obsolete merchandise.

CASH AND WORKING CAPITAL

Current assets as of December 31, 1945 totaled $53,342,231, including cash, marketable securities and United States Treasury Notes in the amount of $16,615,886.

Current liabilities, including reserves of $5,866,153 for United States and Canadian income and excess profits taxes and $1,100,000 for current instalments on serial bank loan were $19,236,800, leaving net working capital of $34,105,431, an increase of $434,723 during the year.

SURPLUS

Earned surplus as shown on the consolidated balance sheet of December 31, 1945, amounted to $12,566,490, compared with $11,317,678 a year earlier.

Among the charges to surplus during 1945 were the premiums paid on debentures retired and related unamortized expenses which amounted to $336,059 after income tax adjustments, and a premium of $4 per share on retirement of preferred stock of United-Rexall Drug Company which totaled $400,000.

INVENTORIES

At the year-end, inventories were valued at $30,027,973, which compared with $28,308,686 at the end of 1944.

NEW LOCATION OF HEADQUARTERS

During the year, a program, starting in 1943, of consolidating all of our drug manufacturing at St. Louis was completed, and the space previously occupied in the Boston Plant was made vacant. As a consequence, the Boston Plant was sold in its entirety, the loss from the sale resulting in a substantial reduction in Federal income tax liabilities. With the sale of the property it became necessary to seek a new location for our offices and Los Angeles was selected as the city where the most progressive merchandising plans are being developed. We were fortunate in being able to acquire a very desirable location on the corner of Beverly and La Cienega Boulevards and by the end of this year it is hoped that a new building will be completed to house the world headquarters of our administrative departments. A portion of the building will be occupied by the finest drug store ever installed which will serve as a model for future stores in our own retail companies and for our Rexall Dealers.

REFINANCING

In 1943 a successful refinancing of the funded debt of United-Rexall Drug Company was arranged. The progress of your company made during the past two years permitted the carrying out of a further refinancing program in June of 1945. The then outstanding $18,666,000 of 3¼% debentures and $10,000,000 of $4.75 preferred stock of United-Rexall Drug Company were redeemed and replaced by a $7,000,000 2¼% serial bank loan maturing June 1st, 1952 and $21,000,000 3% sinking fund debentures due June 1st, 1965, issued to a group of insurance companies. The cost of this operation, before tax saving, including the premium to retire the old bonds and preferred stock, was $1,486,059.

Your company arranged a further 2¼% serial bank loan of $700,000 and issued in December to an insurance company $1,300,000 3% sinking fund debentures due 1965 to provide a portion of the funds for the new headquarters building, giving us office space at a much lower cost than would have been possible had we leased it.

SPLIT-UP AND INCREASE OF AUTHORIZED SHARES

The present authorized capital stock of the corporation consists of 1,400,560 shares of the par value of $5 each, all of which are issued and outstanding. The stockholders are being requested by the management and the Board of Directors

PRICE, WATERHOUSE & CO.

530 WEST SIXTH STREET

LOS ANGELES 14

April 4, 1946

To the Board of Directors
of United Drug, Inc.:

We have examined the consolidated balance sheet of United Drug, Inc. and its subsidiary companies as of December 31, 1945 and the related consolidated statements of profit and loss, earned surplus and capital surplus for the year ending on that date. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss, earned surplus and capital surplus, with the accompanying notes to financial statements, present fairly the consolidated position of United Drug, Inc. and its subsidiary companies at December 31, 1945, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

PRICE, WATERHOUSE & CO.

UNITED DRUG, INC. (Incorporated in De

CONSOLIDATED BALANCE SH

(WITH COMPARATIVE FIGURES

ASSETS

	December 31, 1945	1944
CURRENT ASSETS:		
Cash in banks and on hand	$13,325,978	$14,158,045
United States Treasury notes, tax series (*cost and face amount*)	2,600,000	7,100,000
Canadian Government bonds and other foreign investments (*market quotations, approximately $790,000 in 1945 and $705,000 in 1944*)	689,908	608,483
Customers' accounts and notes receivable, less reserves (*Note 3*)	4,632,819	4,732,206
Other accounts and notes receivable	1,685,553	1,375,813
Refundable 1944 Federal income taxes attributable to carry-back adjustments — estimated (*Note 8*)	380,000	...
Inventories of merchandise, partly finished stocks, materials and supplies — at cost or market whichever lower (*Note 4*)	30,027,973	28,308,686
TOTAL CURRENT ASSETS	$53,342,231	$56,283,233
INVESTMENTS AND ADVANCES, ETC.:		
Investments in and advances to wholly owned English and South African subsidiaries, not consolidated (*Note 2*)	$ 371,416	$ 348,676
Miscellaneous investments, at or below cost, less reserve (*Note 5*)	136,800	851,703
Noncurrent receivables, advances and deposits, less reserves (*Note 3*)	579,793	222,756
Postwar credits of excess profits taxes — estimated	98,660	674,938
Cash in banks — restricted (*Note 6*)	2,733,000	...
	$ 3,919,669	$ 2,098,073
PROPERTY ACCOUNTS (*Notes 6 and 7*):		
Land, buildings and building fixtures	$ 7,069,632	$ 9,055,721
Machinery and equipment, etc.	8,540,240	8,564,815
Store fixtures and improvements, etc.	12,699,808	12,682,717
	$28,309,680	$30,303,253
Less — Reserves for depreciation	16,385,633	16,976,442
	$11,924,047	$13,326,811
DEFERRED CHARGES:		
Prepaid insurance, taxes, rent, etc.	$ 815,190	$ 899,476
Unamortized discount and expense on debentures	68,623	127,140
	$ 883,813	$ 1,026,616
GOODWILL, TRADEMARKS, ETC.	$ 1	$ 1
	$70,069,761	$72,734,734

(See notes to finan

laware) AND SUBSIDIARY COMPANIES

HEET — DECEMBER 31, 1945

AS AT DECEMBER 31, 1944)

LIABILITIES	December 31, 1945	1944
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$12,262,143	$11,253,754
Serial bank loans (*current instalments*) — partly secured (*Note 6*)	1,100,000	...
Current sinking fund provision on debentures	...	310,575
Real estate purchase obligations (*current instalments*)	8,504	8,090
Preferred stock dividend	...	118,750
Reserves for estimated Federal and Canadian income and excess profits taxes and for renegotiation (*Note 8*)	5,866,153	10,921,356
TOTAL CURRENT LIABILITIES	$19,236,800	$22,612,525
FUNDED DEBT OF UNITED-REXALL DRUG COMPANY:		
Serial bank loans, semiannual instalments due 1947 to 1952 — partly secured (*Note 6*)	$ 6,100,000	...
Twenty-year 3% sinking fund debentures due June 1, 1965— Authorized and issued	21,000,000	...
Collateral trust 3% secured debentures due December 15, 1965 (*Note 6*)— Authorized and issued	1,300,000	...
Fifteen-year 3¼% sinking fund debentures, retired in 1945	...	$18,666,000
Real estate purchase obligations maturing after one year (*Note 6*)	185,931	194,435
	$28,585,931	$18,860,435
PREFERRED STOCK OF UNITED-REXALL DRUG COMPANY (*retired in 1945*)	...	$10,000,000
RESERVES, per accompanying statement:		
For postwar rehabilitation	$ 1,620,000	$ 1,500,000
For contingencies	900,000	1,300,000
Other reserves and deferred income	67,988	272,118
	$ 2,587,988	$ 3,072,118
CAPITAL STOCK OF UNITED DRUG, INC., AND CONSOLIDATED SURPLUS:		
Capital stock — Authorized and issued — 1,400,560 shares, par value $5 each	$ 7,002,800	$ 7,002,800
Capital surplus, per accompanying statement	426,819	393,275
Earned surplus since September 1, 1933 (*Note 10*), per accompanying statement	12,566,490	11,317,678
	$19,996,109	$18,713,753
Less — Capital stock of United Drug, Inc. acquired and held by United-Rexall Drug Company (*Note 11*) — 31,178 shares in 1945 and 48,478 shares in 1944, at cost	337,067	524,097
	$19,659,042	$18,189,656
	$70,069,761	$72,734,734

cial statements)

UNITED DRUG, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDING DECEMBER 31, 1945

(WITH COMPARATIVE FIGURES FOR 1944)

	Year ending December 31, 1945	1944
Sales, less returns, allowances and discounts	$158,182,700	$147,793,341
Cost of sales, selling, distribution, promotional and administrative expenses, etc. (*including depreciation of $1,410,025 in 1945 and $1,337,220 in 1944*)	149,438,738	134,094,502
OPERATING PROFIT	$ 8,743,962	$ 13,698,839
Other charges (*credits*):		
Interest and amortization of expense on funded debt, etc.	$ 811,826	$ 647,882
Dividends on subsidiary's preferred stock, retired in 1945	199,230	475,000
Dividends, interest and other income	(134,449)	(85,564)
Office and plant moving and rearrangement expenses and related charges (including in 1945 approximately $580,000 expense of moving general offices from Boston to Los Angeles)	1,220,111	654,548
Excess of carrying value of Boston real estate over proceeds from sale	1,277,713	...
Loss from real estate operations	78,285	102,856
Cost of leaseholds, etc., purchased during year	93,679	157,587
Store rehabilitation charges and abnormal personnel training expenses (*Note 9*)	71,596	...
Provision for Federal and Canadian income and excess profits taxes and for renegotiation (*Note 8*), less in 1945 $1,630,000 estimated reduction of 1944 Federal taxes attributable to carry-back adjustments	2,875,000	9,041,000
Portion of premium paid on debentures retired and related unamortized expense, equal to reduction of income taxes attributable thereto	750,000	14,000
Provision for postwar rehabilitation	...	500,000
Restoration of a portion of amounts previously provided for postwar rehabilitation and contingencies (*Note 9*) — related charges included above	(470,000)	...
	$ 6,772,991	$ 11,507,309
PROFIT TRANSFERRED TO EARNED SURPLUS	$ 1,970,971	$ 2,191,530

(See notes to financial statements)

UNITED DRUG, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS EARNED SINCE SEPTEMBER 1, 1933 FOR THE YEAR ENDING DECEMBER 31, 1945

Balance at beginning of year	$11,317,678
Add (*deduct*):	
Profit per accompanying statement	1,970,971
Adjustment of unrealized Canadian exchange losses	13,900
Premium paid on debentures retired and related unamortized expense, less $750,000 reduction of income taxes attributable thereto	(336,059)
Premium ($4 *per share*) on retirement of preferred stock of subsidiary	(400,000)
Balance at close of year (*Note* 10)	$12,566,490

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1945

Balance at beginning of year	$393,275
Excess, over average cost, of consideration received from exercise of options for 17,300 shares of United Drug, Inc. capital stock held by subsidiary (*Note* 11)	33,544
Balance at close of year	$426,819

CONSOLIDATED STATEMENT OF RESERVES FOR THE YEAR ENDING DECEMBER 31, 1945

	Reserves for postwar rehabilitation	*Reserves for contingencies*	*Other reserves and deferred income*
Balance at beginning of year	$1,500,000	$1,300,000	$272,118
Add (*deduct*):			
Reserves for maintenance of retail stores transferred to reserves for postwar rehabilitation	190,000	...	(190,000)
Restoration to profit and loss of portions of the reserves (*Note* 9)	(70,000)	(400,000)	...
Other charges, net	...	...	(14,130)
Balance at close of year	$1,620,000	$ 900,000	$ 67,988

(See notes to financial statements)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — BASIS OF CONSOLIDATION:

The accompanying consolidated financial statements of United Drug, Inc. and subsidiary companies include the accounts of United Drug, Inc. (parent holding company), United-Rexall Drug Company (parent operating company, all of the capital stock of which is now owned by United Drug, Inc.) and the domestic and Canadian subsidiaries all of which are wholly owned, with one minor exception noted below, by United-Rexall Drug Company. The English and South African subsidiaries of United-Rexall Drug Company have not been consolidated.

Subsidiaries consolidated for the first time in 1945 are Bevega, Inc., newly formed and wholly owned, and Sontag Chain Stores Co., Ltd. which was more than 99% owned at the end of the year as compared with approximately 79% at the beginning of the year; in the consolidated balance sheet the small minority interest has been offset against cash which has been deposited in escrow for purchase of the minority shares.

As of November 30, 1944 the business previously conducted by Sontag Chain Stores Co., Ltd. was transferred to the Sontag Division of United-Rexall Drug Company and the operating results of this business have been included in the consolidated accounts since that date.

NOTE 2 — FOREIGN ASSETS AND EARNINGS:

The assets, liabilities and earnings of the Canadian subsidiaries are expressed in the consolidated statements at their equivalent in United States dollars.

The underlying net assets (chiefly current) at December 31, 1945 of the wholly owned English and South African subsidiaries not consolidated, expressed at their equivalent in United States dollars, were approximately $600,000; earnings of these subsidiaries, $36,000 in 1945 and $30,000 in 1944, have been included in the accompanying profit and loss account only to the extent of dividends received in United States dollars, $1,206 in both years.

NOTE 3 — ACCOUNTS AND NOTES RECEIVABLE, ETC.:

Customers accounts and notes receivable (current) are stated net after deducting reserves of $592,121 in 1945 and $595,245 in 1944.

Noncurrent receivables, advances and deposits include $371,707 in 1945 and $63,151 in 1944 owing by employees; the former amount includes $307,000 advanced in the latter part of 1945 to assist employees in financing the purchase of homes in the Los Angeles area.

NOTE 4 — INVENTORIES:

The inventories of the consolidated companies have been priced on the basis of cost or market whichever lower, after eliminating estimated intercompany profits included therein. In general, cost as applied to inventory valuation represents current actual cost or current average purchase or manufacturing cost computed under the first in, first out method.

NOTE 5 — MISCELLANEOUS INVESTMENTS:

Miscellaneous investments at December 31, 1945 include, as in prior years, an investment of uncertain value in an affiliated real estate company, which is carried at a nominal amount of $1. A subsidiary of United-Rexall Drug Company holds a second deed of trust on this company's real estate securing a note for the face amount of $800,000 and also holds an option to purchase for $1 its entire capital stock. The second deed of trust is subordinate to a first deed of trust securing a note for a substantial amount held by others. As a result of improved earnings of this company in recent years and the pending sale in 1946 of a portion of its real estate properties, the possibility of realizing an appreciable amount on this investment has increased.

Note 6 — New Administration Building and Pledge of Assets:

In 1945 Bevega, Inc., a subsidiary, purchased land at a cost of $230,000 and became committed to the construction in 1946 of an administration building in Los Angeles. The collateral trust debentures of United-Rexall Drug Company and $700,000 of its serial bank loans ($100,000 of which are included in current liabilities) were secured at December 31, 1945 by the entire capital stock of Bevega, Inc., whose underlying assets, included in the consolidated accounts as of that date, consisted principally of the above mentioned land, preliminary building costs of $65,000 and cash in banks of $2,733,000 which is restricted to construction or to payment on the indebtedness referred to above.

The real estate purchase obligations are secured by other real estate which was carried at a depreciated amount of $206,000 at December 31, 1945.

Note 7 — Property Accounts:

Although certain portions of the gross amounts at which the property accounts are stated represent appraisal values or reductions of original cost recorded years ago, it appears that such portions for the most part have been fully depreciated and that the net carrying value of the properties at December 31, 1945 is not materially greater or less than depreciated cost. The gross property amounts at December 31, 1945 include equities in real estate amounting to $210,770 which are held subject to unassumed mortgages of $499,943.

Note 8 — Reserves for Estimated Federal and Canadian Income and Excess Profits Taxes and for Renegotiation:

The reserves for Federal and Canadian taxes on income at December 31, 1945 are considered to be reasonable and adequate to cover all such accrued and unpaid taxes, but the companies' liabilities therefor and the related refundable 1944 Federal income taxes are subject to final determination by the respective taxing authorities. The Bureau of Internal Revenue has not yet examined the consolidated Federal income and excess profits tax returns of the domestic companies for the years 1942 and 1943 or their separate returns for the year 1944.

Renegotiation proceedings with respect to earnings on war business of certain subsidiaries have been substantially concluded for 1944. Reasonable provision for amounts which may have to be refunded for the years 1944 and 1945 has been made in the accounts on the basis of the companies' experience to date in such proceedings.

Note 9 — Charges to Reserves for Postwar Rehabilitation and Contingencies:

In 1945 the several companies incurred charges and losses of the nature contemplated when reserves were provided from profits in 1944 and previous years for postwar rehabilitation and contingencies; such charges and losses included abnormal personnel training expenses, losses in connection with store closings and rehabilitation and inventory disposal losses and write-downs. The amounts thereof have been included in the consolidated statement of profit and loss in their appropriate categories, and a special credit of $470,000 has been made to profit and loss by transfer from the reserves; the balances of the reserves after such transfer are estimated to be sufficient to cover future requirements. The special credit comprises $70,000 restored from the reserves for postwar rehabilitation in respect of abnormal personnel training expenses and store rehabilitation losses and $400,000 restored from the reserves for contingencies in respect of a portion of inventory losses and write-downs.

Note 10 — Earned Surplus:

The consolidated earned surplus of United Drug, Inc., and its subsidiaries covers the period since September 1, 1933, the approximate date of organization of United Drug, Inc. The balance thereof at

December 31, 1945, $12,566,490, was represented by $126,084 of earned surplus of United Drug, Inc. and $12,440,406 of undistributed consolidated surplus earnings of United-Rexall Drug Company and subsidiaries since September 1, 1933. Under the terms of the indentures securing outstanding debentures of United-Rexall Drug Company, approximately $1,300,000 only of the latter amount was available for distribution to the parent company, United Drug, Inc., in the form of dividends on the wholly owned capital stock of United-Rexall Drug Company.

NOTE 11 — EXECUTIVE STOCK OPTIONS:

In December 1945 executives who in 1944 were granted options to purchase shares of the capital stock of United Drug, Inc. held by United-Rexall Drug Company exercised their options with respect to 17,300 shares, being all of the shares for which options could be exercised prior to March 1, 1946. The aggregate average cost to the company of the 17,300 shares purchased by executives was $187,030; the aggregate consideration received therefor by the company was $220,575 (the value at market quotations, $12.75 per share, on the day prior to the adoption of the option plan); and the aggregate value at market quotations on the days on which the options were exercised was $467,100. At December 31, 1945 the executives held options to purchase at $12.75 per share 28,600 additional shares out of a total of 31,178 shares then held by the company, such options being exercisable in instalments over the seven-year period beginning on March 1, 1946.

PRINTED IN U.S.A.